Strategic Management – The Competitive Edge
Professor R Srinivasan
Department of Management Studies
Indian Institute of Science, Bengaluru
Lecture 05
Strategic Management Process (SMP)

In this session, we look at the strategic management process.

What is the strategic management process? It is the full set of commitments, decisions and actions required for a firm to achieve strategic competitiveness and above average returns. So, the two terms which are important is strategic competitiveness and above average returns. Strategic competitiveness is achieved when a firm successfully formulates and implements a value creating strategy.

So, what is this value creating strategy? It can be demonstrated by a number of examples. Suppose you had let us say just some wooden pieces, these wooden pieces maybe let us say teak wood wooden pieces- these teak wood wooden pieces by themselves may not have value.Now, let us say you made use of these teak wood pieces and came out with teak wood chair. Value gets created into this product and this is what happens in the present day organizations. So, if you look at most of these well-known players in the world today, they always encourage their employees to come out with suggestions. So, whether it is a manufacturing company like General Motors or Ford or any enterprise in the United States context and or a non-manufacturing company as well, these creative ideas get immediate recognition.

Companies in the retailing scenario, whether it is the Amazon or some other company always invite suggestions from their employers and if it is accepted and if they are able to act on that suggestion to come out with value creating strategy then this employee will be handsomely rewarded. There is always a box which you can find in most of these divisions in the company, whether it is Intel or any other.

And these boxes, many times are getting suggestions from the employees whether it is with reference to canteen or transport- so many suggestions are given they find out which suggestions can be feasible and implemented. So, this helps the organization getting or becoming strategically competitive.

Above average returns occurs when a firm develops a strategy that competitors are not simultaneously implementing. The example of the Gillette company- many companies wanted to come out with triple blade technology- could not, and this triple blade technology that is Mach

3 holds its sway even in the present day context.

Suppose, you are able to get above average returns -it provides benefits which current and potential competitors are unable to duplicate. So, you develop the strategy which your competitors are not capable of duplicating, then it provides the organization with benefits for a long time, which helps to have a sustainable competitive advantage.

So, we look at some important definitions, many times you may be wondering people say this is a risky investment- what is this risk they are talking of. It is an investor's uncertainty about the economic gains or losses that will result from a particular investment. So, many times in the market you see IPOs that is the Initial Public Offerings coming from many companies.

So, a one-rupee share is asked or is being quoted at 900 rupees in the marketplace, the company is not even listed. For one-rupee share of the company it wants 900 rupees from the investor. So, if you are paying 900 rupees the company will give you one-rupee share of that company- what does it mean? In real terms it means that, if you took this one share, you already incurred a loss of 899 rupees, you have put 900 rupees and one-rupee is what the company going to give you.

Assuming that the company is performing to the expectations when listed in the marketplace -the one-rupee share of the company is getting listed at 1000 rupees- what does that mean? It means that you are able to not only recover 900 rupees, but also make a profit of 100 rupees on your investment. Now, when you put these 900 rupees on this one-rupee share you take a lot of risk.

So, this is what happened to many of the software companies when they started in 84, including Infosys. So, many thought that all these computer companies are not going to survive, but what is presently happening, it looks as though all those predictions have been belied or defeated. These computer companies are holding sway, in fact, they are dictating the strategic scenario of the country as well.

Then what is average returns? Average returns are those returns that are equal to those an investor expects to earn from other investments with a similar amount of risk. Suppose, I put my 100 rupees in a bank and I am able to get let us say 8 rupees as interest after 1 year, - assumption bank gives you 8 percent interest. Now, the present interest rate of the bank has come down many times it may be less than 6 percent also.

So, this is the average return that you expect from the marketplace. Suppose, you are putting it in a company you should be able to get a better return that is you should be able to get more than 8 percent, otherwise, why should you take so much of risk and put the money in the company. So, average returns are equal to what an investor expects to earn from other investments with a similar amount of risk.

The present-day scenario in the country is that Indian youth is prepared to take risks. This is different from the scenario a few decades earlier when we were all risk averse. So, were not interested in taking risk. In the present-day scenario, India is able to provide loans to a country like Russia-more than 1 billion dollars to Russia. Now, Sri Lanka has gone into economic trap set up by China and again a sort of minimal bailout is being given by India -450 million dollars.This is what happens when economy is doing well.

What does this give you? It gives you strategic flexibility in the marketplace, whether it is with reference to the country or whether it is with reference to your company . Strategic flexibility stands for responses to various demands and opportunities existing in a dynamic and uncertain competitive environment.

So, one need not think that only companies are having this uncertain and dynamic competitive environment- countries also have this dynamic and uncertain competitive environment. So, this is being amplified by the present-day war which is happening between Russia and Ukraine.

Here you have so many countries which are unable to really sustain the onslaught of this war, the commodity prices in those countries have greatly gone up including oil. So, many countries are bringing pressure including the United States on India not to buy oil from Russia. So, because we are importing oil from Russia,though the fuel prices have gone up world over, still India as a big country is able to hold on.

So, these are the types of strategic flexibility a country derives by a strong leadership. If you have a strong leadership and leadership capable of giving directions, you can sustain in an uncertain competitive environment- it happens with respect to companiesand nations as well; it involves coping with uncertainty and the accompanying risks.

So, with all this, we can look at the strategic management process; the strategic management process, we are looking at it is in the form of blocks. The first block looks at determination of purpose or mission. Why is this organization created? I gave the example of ITI when it was started in 1948, the first public sector undertaking to be started in the country to meet the telecommunication needs of the country.

That was the purpose for which this company was established. The second block is environmental assessment. That is the threats and opportunities at that point of time in the country. It was only opportunities, there was no threat. ITI was the only player. Whatever it put out into the market would sell like hotcakes- including its black mechanical telephone, which used to weigh 10 kgs.

But what is the present day scenario? The present day scenario is where you have slim phones, even when it falls on your leg, nothing will happen, many times these are plastic phones, made with such nicety that even when it falls, there will be no impact on the user and there will be no impact on the instrument as well because it is not also going to break so easily unless you drop it from a great height.

So, these are coming in the block of environmental assessment. In the present-day context mechanical phone of ITI is not able to sustain in the marketplace. So, it can be good as a museum piece.

The third block is organizational analysis, that is the strengths and weaknesses.Suppose you had only people who were capable of producing mechanical type of instruments, when the market has moved into electronics, you are not able to move - then it is a great weakness for the organization; you have to move into that field in order to sustain yourself in the marketplace.

So, in the second block, you are looking at environmental assessment, the third block you are looking at organizational analysis. The second and the third blocks put together we call it what is call the SWOT analysis. That first block leads to the fourth block- fourth block, from the mission or the purpose specify the objectives.

So, if you specify the objectives, you will know for which sector which type of objective is required, for defence what is required. In defence still Morse code is used for
the strategy in war field. And for a country like India essentially required because we have only enemies surrounding the country.

So, the specification of objectives, suppose, you do it, it requires for you to redefine and revise as needed. So, you should keep on revisiting this. And when you do that, you may have to revisit your mission also in the whole process. So, in order to revisit this, when you revisit this mission, some things may undergo changes that is redetermine as needed.

So, the fourth block leads to the fifth block where you formulate the strategy or the strategic plan to achieve objectives and goals. So, here again, you keep on revisiting this, note that all this is a continuous process, it is not one time, you keep on visiting this process day after day, till the whole process gets completed, then reformulate as needed. The fifth block leads you to the sixth block, that is implementation or execution of the strategic plan.

So, this may require reworking. Suppose, you think that there is a course correction which is required in the implementation exercise, you should be able to do that, that is where the sixth block leads you to the seventh block -that is monitoring, reviewing and evaluation and all this leads you to recycle to phases 1 4 5 and 6 as needed. So, here is a very nice depiction of the strategic management decision making process in the form of blocks.

This can be put down in again in different manner. So, the environment in this when you look at this diagram, this environmental analysis it is put in two blocks, one is the external block second is the internal block. This external block is telling you the social environment, the task environment giving you the opportunities and threats.

What is the internal block telling you? It is on the structure within the organization, culture within the organization, resources in the organization, essentially your strengths and weaknesses. When you look at this next compartment on strategic formulation, you are looking at the mission, mission leads to objectives, objective leads to strategies, strategies lead to policies and then you come to the third compartment that is the implementation of the strategy.

So, in order to implement the strategy, you are going to formulate programs, programs will entail assigning budgets, these budgets after they are assigned, you come to the nitty-gritty that is procedures to implement this whole strategy. And the last block is the evaluation and control which essentially is the performance of this whole strategic planning exercise.

And at the bottom of all this is a feedback and control going to all the blocks whether it is the environmental analysis or the strategic formulation or the implementation of the strategy or the evaluation and control. So, these strategic planning management processes are given by these compartments in this block.

Now, what is the objective of this exercise of strategic management decision making? The main intention of all this is to make the organization a learning organization. Kindly note that we are always in the process of learning whether it is right from the childhood down to your youth, youth to middle age or even to your old age.

So, what does this learning do with respect to organizations. An organization has to become a learning organization in the present-day competitive context, otherwise it will cease to exist. What are the four main activities of a learning organization- First is solving problems systematically; The second is experimenting with new approaches.

In other words, an organization should be able to take some risk. Do not keep on saying I am risk averse. It does not hold in the present-day marketplace. Third one learning from their own past experiences and past history as well as from the experiences of others- what is this- You create what is called a knowledge bank, organisation executed so many projects and came across so many difficult situations in this project management process, which you have solved.So, you create a knowledge management pool. So, if some other project comes in the future, you are encountering the same type of situation, you can apply the solution there. So, most of the present-day software organizations, the majors mainly whether it is the Infosys, or the Wipro or the TCS or even good medium scale enterprises like Mindtree always pride on their knowledge bank.

So, transferring knowledge quickly and efficiently- this is what organizations call Knowledge Process Outsourcing or KPO. These are the four main activities of a learning organization, which you have to really do in the present-day context, to survive in the marketplace.

And all that helps you to look at modes of decision making, these modes of decision making was given by Mintzberg. We will look at Mintzberg's modes of decision making in the next session. Thank you.